EXHIBIT 2
DATE 2-12-13
HB 344

House Bill 344

Testimony of Montana Grain Growers Association
By Brian Eggebrecht

Mr. Chairman, Members of the Committee, for the record my name is Brian Eggebrecht and I am Past President of the Montana Grain Growers Association. Our membership represents over 5.5 million acres of Montana crop and grassland and I serve the grain producers who provide this state's largest single source of new wealth. Our farmers are family business owners who contribute over $2.0 Billion dollars to our economy every year and, by some estimates, support over 31,000 Montana jobs.

It is a basic tenet of business that if I sell you something, I should receive payment for my product. Buying and selling grain is no different. There is a great deal of trust involved in the relationship between grain producers and grain buyers, with most deals initiated and completed over the phone. This process works very well. But in this particular buy-sell arrangement, payment is not immediately made at the time of delivery of the product. Depending on the size of their facility, grain companies can have possession of grain worth millions of dollars for which farmers have not yet been paid. It can take up to 6 weeks from the time of delivery until the producer receives a check for his grain. This time period leaves our growers vulnerable, especially in situations where financial insolvency of the grain dealer is a possibility.

Our very reasonable request to increase the bond from 2% to 5% is intended not just to assure higher payments to growers who may be caught in an elevator bankruptcy, but also to increase the scrutiny by bonding companies whose job it is to closely analyze all of a grain dealer's financial aspects before issuing a bond.

In addition, this bill will address instances where a grain company is known to be in bankruptcy, but the farmer is required to continue delivering grain on an outstanding contract knowing he will not receive compensation for it.

You may hear that availability of bonding at this new level is uncertain. We asked the Director of Surety for a bonding company whether this modest increase will affect bonding availability. His response was that it would not be a problem for dealers who have good financial records. Another Montana surety bondsman conducted an exercise for us to determine if a mid-size Montana seed dealer who currently bonds using a line of credit at his bank would be eligible for a surety bond at the proposed level. The bondsman found that this dealer in fact qualified for a bond 6 times greater than what would be required under this bill.

You may also hear suggestions that a grower funded indemnity pool would be a more appropriate and effective solution. As producers of a raw commodity we know very well that costs incurred by businesses further along the food chain will, whenever possible, be passed back to us. Growers already pay the cost of grain dealer's current bonding expense. But an important element missing in producer-funded indemnity pools is that the initial responsibility for a bond is placed on the dealers who are responsible for their own solvency. A readily available slush fund of grower dollars may only serve to incent risky behavior by less scrupulous grain buyers.

And finally, you may hear that the additional cost this bill will impose on grain companies could cause them financial hardship. Our best legal advice and several bondsmen we have consulted all estimate bond cost within a range of 1% of the required bond amount for dealers who have more risk, down to 0.3% for more financially stable companies. Furthermore, if the cost is passed back to the grower as grain companies have assured us it will be, there will be no additional financial burden on the dealers themselves. The resulting cost to growers amounts to less than four tenths of a cent per bushel total; an increase of approximately two tenths of a cent per bushel from current levels.

See chart: FY 2013 Commodity Dealer Bonding – Examples of Current & Proposed Bond and Bond Cost

I've categorized the grain dealers licensed to do business in Montana into three groups according to their annual commodity purchase amount as reported to the Montana Department of Agriculture.

1. Small dealers - 69 companies; 80% of total and have reported annual purchases under $10,000,000

2. Mid-size dealers – 12 companies; 10% of total with annual purchases between $10,000,000 and $50,000,000.

3. Large dealers – 6 companies; 10% of total with annual purchases greater than $50,000,000 and up to $620,000,000.

The first chart shows the average increase in bond required for companies in each of these categories. The second chart shows the expected increase in bonding cost.

1. Small dealers – average bond cost increase is about $500 per company.

2. Mid-size dealers – average bond cost increase is about $3,000 per company.

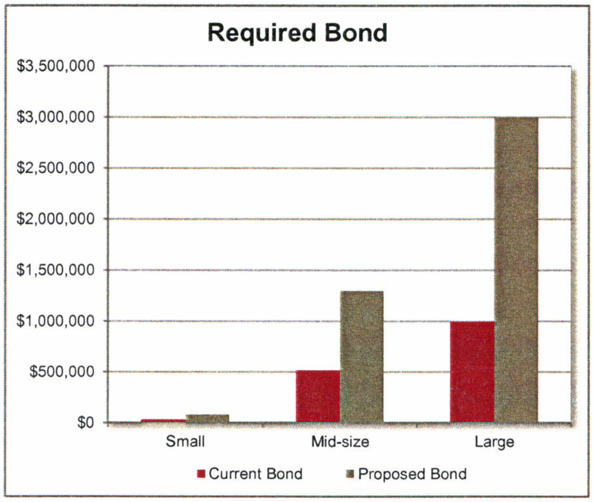
3. Large dealers – average bond cost increase is $6,000 per company.

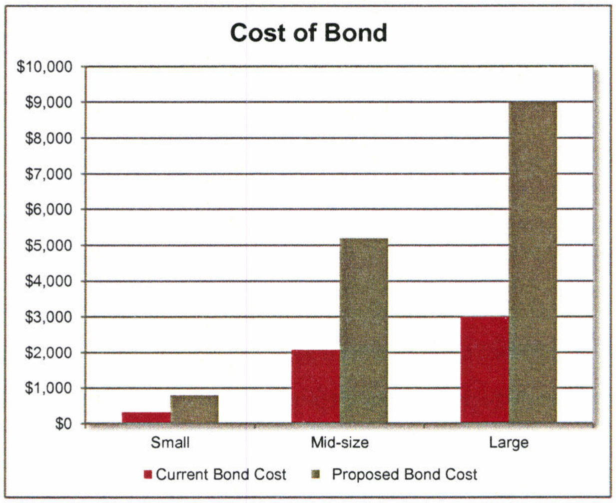
MGGA supports HB 344 and asks for your favorable consideration.

Thank you.

FY 2013 Commodity Dealer Bonding - Examples of Current & Proposed Bond and Bond Cost

Facility Size	Average Annual Commodity Purchases as reported to DOA	Current Bond	Proposed Bond	Current Bond Cost	Proposed Bond Cost
Small	$1,600,000	$32,000	$80,000	$320	$800 *(estimated at 1.0% of bond)*
Mid-size	$26,000,000	$520,000	$1,300,000	$2,080	$5,200 *(estimated at 0.4% of bond)*
Large	$215,000,000	$1,000,000	$3,000,000	$3,000	$9,000 *(estimated at 0.3% of bond)*





Small - 69 small companies make up 80% of all licensed dealers and have annual purchases of $0 to $10,000,000

Mid-size - 12 mid-size companies make up 10% of all licensed dealers and have annual purchases of $10,000,000 to $50,000,000

Large - 6 large companies make up 10% of all licensed dealers and have annual purchases of $50,000,000 to $600,000,000